

LEGISLATIVE BUDGET ANALYSIS – 2009 BIENNIUM VOLUME 1 – STATEWIDE PERSPECTIVES

REPORT FROM THE LEGISLATIVE FISCAL DIVISION TO THE SIXTIETH LEGISLATURE

(VERSION 3)

DISCLAIMER

The following outline is intended to illustrate the content and type of information that would be in Volume 1. It is not meant to be an accurate portrayal of the LFD Budget Analysis for the 2009 biennium

Legislative Finance Committee Members

List LFC members here

Clayton Schenck, Legislative Fiscal Analyst

Acknowledgements	LFD Publications
<p>This report was prepared by Jon Moe, with assistance from many others in the office. The Legislative Fiscal Division's office (LFD) is a nonpartisan office which provides fiscal and policy information and advice to the legislature.</p>	<p>To request publications call 406.444-2986. This report and others, as well as an e-mail subscription service, are available on the LFD's internet website at http://leg.mt.gov/css/fiscal/default.asp. The LFD is located at Room 110, State Capitol, Helena, MT 59620.</p>

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Clayton's transmittal letter

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INTRODUCTION

The purpose of this document is to assist the Legislature in setting its priorities and reflecting these priorities in the 2009 biennium budget bill and in other legislation. It seeks to accomplish this by (1) providing perspectives on the state's fiscal condition and the budget proposed by the Governor for the 2009 biennium and (2) identifying some of the major issues now facing the Legislature. As such, this document is intended to complement Volumes 2 through 7 of the *Legislative Budget Analysis – 2009 Biennium*, which contains our review of the 2009 Biennium Executive Budget.

Volumes 2 through 7 of the *Legislative Budget Analysis* continue to report the results of our detailed examination of state programs and activities. In contrast, this document presents a broader fiscal overview and discusses significant fiscal and policy issues which either cut across program or agency lines, or do not necessarily fall under the jurisdiction of a single fiscal subcommittee of the Legislature.

This volume is divided into five parts:

- Part I, “State’s Fiscal Picture”, provides a high level summary of our analysis of the proposed executive budget.
- Part II, “Perspectives on the Economy and Demographics”, describes the current outlook for the economy.
- Part III, “Perspectives on State Revenues”, provides a review of the revenue projections in the budget and our own assessment of revenues through FY 2009.
- Part IV, “Perspectives on State Expenditures”, provides an overview of the state spending plan for the 2009 biennium and evaluates the major expenditure proposals in the budget.
- Part V, “Major Issues Facing the Legislature”, includes analyses of several issues (briefly describe these once the 6-8 major issues are chosen)

State's Fiscal Picture



The 2009 biennium fiscal outlook is significantly more optimistic than recent biennia. Bolstered by greater than expected individual and corporate income tax and oil and gas collections, state revenues have increased, leaving a sizable projected general fund balance as of the end of FY 2007/2009. The Governor projects \$4.3 billion in available general fund in the 2009 biennium and requests \$4.0 billion in one-time and ongoing program expenditures, establishes a \$140.0 million rainy day fund, and proposes a \$100.0 million fund balance.

LFD Bottom Line. The Legislative Fiscal Division's (LFD) analysis of the *2009 Biennium Executive Budget* concludes that the governor's proposed 2009 biennium budget:

- Would finish the 2009 biennium with a \$222.0 million general fund balance, before reserves (compared to the Governor's estimate of \$254.0 million)
- Would allocate \$500.0 million of the projected \$531.0 million in one-time revenues for one-time expenditures, primarily directed towards public employee pension funds, infrastructure, and a one-time property tax rebate
- Would exacerbate long term structural budget issues by increasing ongoing general fund costs \$627.0 million in the 2009 biennium and ongoing general fund revenue by \$279.0 million (compared to the Governor's estimate of \$582.0 million and \$245.0 million, respectively)
- Allocates general fund to several functions previously not funded with general fund
- Lacks sufficient detail in its revenue proposals to evaluate the impact upon Montana's business and individual taxpayers

THE EXECUTIVE BUDGET PROPOSAL¹

REVENUE FORECAST – SLOWER GROWTH IN 2009 BIENNIUM

The executive budget revenue forecast is based on economic and revenue trends through fall 2006. Tax receipts during FY 2006 were higher than the *2007 Biennium HJR Revenue Estimates, December 2005 Special Session* estimate. The administration's forecast assumes slower growth in the 2009 biennium, but that total general fund revenue will increase 5.7 percent from the 2007 biennium, reaching \$3.7 billion in the 2009 biennium. Combined with an estimated \$538.0 million general fund balance carried over from the 2007 biennium, the executive anticipates total general fund available to fund the executive budget is \$4.3 billion in the 2009 biennium.

Revenue Related Policy Changes.

The executive budget proposes no major tax law changes. It does, however, include \$46.0 million in new general fund revenues from proposed revenue related changes and compliance measures. See *Part III* in this volume for more information.

PROPOSED SPENDING

The executive budget proposes \$9.1 billion total state spending for the 2009 biennium, a 12.x percent increase from the 2007 biennium. General fund spending is proposed to increase from \$3.2 billion to \$4.0 billion (a 24.6 percent increase), while spending from all other funds increases from \$4.9 billion to \$5.1 billion.

EXECUTIVE'S GENERAL FUND STATUS

Figure 4 shows the general fund status from the 2007 biennium through the 2009 biennium under the executive budget's assumptions and proposals. It shows that:

- **FY 2006– 2007.** The 2007 biennium concludes with a reserve of \$538.0 million, or about twice the amount estimated by the December 2005 Special Session, reflecting stronger than anticipated individual income tax, corporate income tax, and natural resource tax collections.
- **FY 2008-2009.** In the budgeted biennium, projected general fund revenue available – which includes the FY 2007 ending general fund balance plus new revenues -- is \$4.3 billion, while proposed expenditures total \$4.0 billion. The difference is proposed to be set

¹ As required by law, the executive budget includes proposed expenditures for all funds that require an appropriation – either a general appropriation or a statutory appropriation -- in order to be spent from the state treasury. Several types of funds fall into this category, including general fund, state special revenue, federal special revenue, proprietary funds that transfer profits or ending fund balance to an appropriated fund, and capital projects funds

aside for a \$100.0 million general fund reserve and a \$140.0 million rainy day fund.

Figure 1

Governor's Budget -- General Fund Status <i>(December 15, 2006 Budget)</i>				
<i>(Dollars in Millions)</i>				
	2007 Biennium	2009 Biennium	Biennial \$ Change	Biennial % Change
Beginning Fund Balance	\$297.00	\$538.00	\$241.00	
Revenue				
HJR 2 Revenue - <i>OBPP estimate</i>	\$3,487.00	\$3,686.00	\$199.00	5.7%
Governor's Revenue Proposals	\$0.00	\$46.00	\$46.00	
Total Funds Available	\$3,784.00	\$4,270.00	\$486.00	12.8%
Disbursements				
General Appropriations	\$2,914.00	\$3,699.00	\$785.00	
Statutory Appropriations	\$270.00	\$298.00	\$28.00	
Non-Budgeted Transfers	\$53.00	\$18.00	(\$35.00)	
Feed Bill	\$10.00	\$11.00	\$1.00	
Reversions	(\$25.00)	(\$10.00)	\$15.00	
Total Disbursements	\$3,222.00	\$4,016.00	\$794.00	24.6%
Fund Balance Adjustments	(\$24.00)	\$0.00	\$24.00	
Ending Fund Balance ¹	\$538.00	\$254.00	(\$284.00)	-52.8%

¹ The executive budget proposes a \$100 million fund balance and a \$140 million rainy day fund be funded from the 2009 biennium ending fund balance

KEY FEATURES OF THE EXECUTIVE BUDGET

Some of the key programmatic features of the proposed executive budget are shown in Figure 5 and in the summary paragraphs on the following pages.

Address Pension Plan Unfunded Liability

The executive budget includes two proposals intended to address the Teachers' Retirement System's unfunded liability: a one-time infusion of \$100 million general fund and a phased-in, permanent increase of the employer contribution rates over several years. The executive also recommends reducing the guaranteed annual benefit adjustment for new employees, in order to save on long-term benefits costs.

Continue and Expand Economic Development Programs

The Governor doubles the current biennium budget for workforce training grants, one of the components of his economic development program, from \$1.3 million general fund annually to \$4.0 million general fund annually. In addition, the executive

budget includes \$0.5 million general fund annually for marketing and business recruitment efforts, up from \$0.3 million general fund annually.

Figure 5

KEY PROGRAMMATIC FEATURES OF THE 2009 BIENNIUM EXECUTIVE BUDGET PROPOSAL	
Address Pension Plan Unfunded Liability	
<ul style="list-style-type: none"> • One-time infusion of cash - \$100 million • Increases the employer share contribution - \$29.3 million 	
Continue and Expand Economic Development Programs	
<ul style="list-style-type: none"> • Double the investment in the Workforce Training program • Increase marketing and business recruitment funding 	
State Employee Workforce Development and Compensation	
<ul style="list-style-type: none"> • Implement broadband statewide to assist in employee recruitment and retention • Base salary increase, plus increased state contribution towards health insurance premiums 	
Public Health and Human Services	
<ul style="list-style-type: none"> • Transform Montana's Mental Health System • Increase funding for comprehensive prevention strategies and initiatives 	
Education	
<ul style="list-style-type: none"> • Fund full-time Kindergarten • Hold the line on tuition increases for the Montana University System 	
Infrastructure	
<ul style="list-style-type: none"> • "Cash and carry" long range building program for the 2009 biennium – no bonds • Major and deferred maintenance projects \$66.5 million general fund 	
Revenue and Tax Proposals	
<ul style="list-style-type: none"> • Increased auditing and tax compliance efforts, at a net general fund revenue increase of \$72.6 million • Governor's Property Tax Rebate, \$400 per homeowner, estimated to cost nearly \$100.0 million general fund 	

State Employee Workforce Development and Compensation

The executive budget replaces the old personnel classification system with the "broadband plan" for all executive branch agencies, primarily to address widespread need for recruitment and retention of state employees. The executive pay plan proposal would increase base salaries three percent each year, add a flexibility component to migrate towards the broadband plan, increase the longevity adjustment for state employees after 10 years, and increase the state contribution towards health insurance

premium. Projected cost of the pay plan is \$58.6 million general fund and \$42.1 million other funds for the 2009 biennium.

Public Health and Human Services

The executive budget includes \$14.0 million total funds (\$4.1 million general fund) to implement a proposal by the Departments of Public Health and Human Services and Corrections to jointly address the needs of the court-ordered mentally ill offenders to ensure quality and consistent care. The budget also proposes \$9.3 million total funds (\$2.9 million general fund) for programs that promote health lifestyles to prevent illness and disease, such as implementing a methamphetamine prevention strategy, building a public health infrastructure with an emphasis on rural communities, and reducing tobacco use and other addictive substances.

Education

The executive budget allocates \$25.2 million general fund in the 2009 biennium to implement voluntary full-time kindergarten. This funding would enable school districts to offer full-time kindergarten, but leaves the decision to offer full-time kindergarten up to the local school boards and the decision to send children to full-time kindergarten up to their parents.

In addition, an estimated \$50.0 million is included in the executive budget for the Montana University System to cover fixed and inflationary costs so that, subject to the Board of Regents decision making authority, tuition rates do not increase in the 2009 biennium. The Board of Regents has the constitutional authority and responsibility to set tuition rates for the Montana University System.

Infrastructure

The executive budget allocates approximately \$102.0 million of one-time general fund revenue to the state's long range building program to address the backlog of major maintenance needed on state buildings and for building construction that, in the past, would have been funded from general obligation bonds. In the 2009 biennium, the executive recommends \$66.5 million of the one-time monies for major and deferred maintenance and \$35.3 million for construction or purchase of new buildings.

Revenue and Tax Proposals

The executive proposes efforts to increase tax auditing and compliance for several taxes. The executive budget estimates \$46.0 million more general fund revenue in the 2009 biennium from these initiatives. In addition, the executive allocates about \$100.0 million of the one-time general fund revenue for a \$400 per homeowner property tax rebate in FY 2008.

LFD ANALYSIS OF EXECUTIVE BUDGET

In this section, we discuss the key LFD budget findings of the proposed *2009 Biennium Executive Budget*. In addition, we analyze the impact of the *2009 Biennium Executive Budget* proposal on the 2009 biennium general fund status, using the

Revenue and Transportation Interim Committee's (RTIC) revenue forecast; LFD estimates for statutory appropriations, transfers, and reversions; LFD revenue and expenditure adjustments for errors found in the executive budget; and the executive's recommendations for current and proposed general appropriations. We also present and discuss the differences between the executive budget general fund status and the LFD general fund status. In cases where there are legal risks associated with the budget proposals, we have generally given the administration the benefit of the doubt, and thus have not included their potential added costs.

Figure 2

KEY LFD BUDGET FINDINGS OF THE 2009 BIENNIUM EXECUTIVE BUDGET PROPOSAL
<p>2009 Biennium Would Conclude With \$222 Million General Fund Balance</p> <ul style="list-style-type: none"> • Revenues up by \$279 million due to projected continued growth in natural resource taxes and corporate income tax • Expenditures up by \$839 million, driven largely by one-time expenditures, medical inflation, pay plan increases, and corrections caseload increases <p>2007 Biennium General Fund Balance Used for One-time Expenditures in 2009 Biennium</p> <ul style="list-style-type: none"> • The executive allocates 94 percent of the projected \$531.0 million 2007 biennium ending general balance to one-time expenditures, primarily for public employee pension funds, infrastructure, and a one-time property tax rebate <p>Ongoing Expenditure Growth Exceeds Ongoing Revenue Growth</p> <ul style="list-style-type: none"> • The executive budget increases ongoing general fund expenditures 24.1 percent while ongoing general fund revenue is estimated to increase 5.9 percent <p>Executive Budget Expands Definition of Statewide Interest</p> <ul style="list-style-type: none"> • The executive allocates general fund to several functions previously not funded with general fund • Very high potential for future expenditures <p>Executive Budget Proposes Revenue Changes But Lacks Sufficient Detail to Evaluate Impact</p> <ul style="list-style-type: none"> • The executive budget failed to include revenue projections from 5 of the Governor's 23 revenue proposals, leading to a \$30.0 million difference in the executive's and LFD's general fund revenue projections

2009 BIENNIUM WOULD CONCLUDE WITH \$222 GENERAL FUND BALANCE

As indicated in Figures 5 and 6, we estimate that if the Governor's budget proposals were fully adopted, the state would end the 2009 biennium with approximately \$222.0 million general fund, allowing for a substantial reserve.

The RTIC projects ongoing general fund revenue will increase 5.9 percent in the 2009 biennium due to continued moderate growth in natural resource taxes, particularly tax revenues linked to oil and gas production. We project that the additional general fund revenue that would be generated from the executive's new revenue proposals is \$76.0 million in the 2009 biennium, compared to the \$46.0 million additional general fund estimated by the executive budget. The additional revenues from the executive's proposals are anticipated to be ongoing revenues.

Also include a paragraph with a brief discussion of the major expenditure increases and factors driving the increase (i.e. Medicaid caseload, utilization, and cost increases; corrections population increases; medical inflation impacting several areas such as Medicaid, corrections, state employee health insurance premiums; energy costs). Also include a paragraph with a brief discussion of the major expenditure increases and factors driving the increase (i.e. Medicaid caseload, utilization, and cost increases; corrections population increases; medical inflation impacting several areas such as Medicaid, corrections, state employee health insurance premiums; energy costs).

LFD General Fund Status

Figure 3 (Pam, include another footnote on this table indicating sources of info)

LFD Outlook 2009 Biennium-- General Fund Status				
<i>(Dollars in Millions)</i>				
	2007 Biennium	2009 Biennium	Biennial \$ Change	Biennial % Change
Beginning Fund Balance	\$300.00	\$531.00	\$231.00	
Revenue				
HJR 2 Revenue - RTIC	\$3,470.00	\$3,673.00	\$203.00	5.9%
Governor's Revenue Proposals	\$0.00	\$76.00	\$76.00	
Total Funds Available	\$3,770.00	\$4,280.00	\$510.00	13.5%
Disbursements				
General Appropriations	\$2,934.00	\$3,729.00	\$795.00	
Statutory Appropriations	\$271.00	\$307.00	\$36.00	
Non-Budgeted Transfers	\$53.00	\$18.00	(\$35.00)	
Feed Bill	\$9.00	\$11.00	\$2.00	
Reversions	(\$48.00)	(\$7.00)	\$41.00	
Total Disbursements	\$3,219.00	\$4,058.00	\$839.00	26.1%
Fund Balance Adjustments	(\$20.00)	\$0.00	\$20.00	
Ending Fund Balance ¹	\$531.00	\$222.00	(\$309.00)	-58.2%
¹ If the legislature establishes a \$100 million fund balance, the amount available from the 2009 biennium fund balance for a rainy day fund would be about \$120 million				

Explanation of Difference of LFD GF Status from EB GF Status

The narrative in this section should be very high level; not nearly to the detail presented on page 63. I suggest something along the lines of: The causes of our differences from the executive budget projections are limited to (1) assumptions about the economic and revenue outlook and (2) estimation differences in operating costs and statutory appropriations in the 2009 biennium.

If we have space available within our 10-15 page limit for Part I, we could add brief discussion of the economic assumption differences, and the differences in statutory appropriations and reversions.

Our estimate of a \$222.0 million ending general fund balance contrasts with the executive's estimate of a \$254.0 million ending general fund balance. The difference reflects both our lower revenue estimates and higher estimated expenditures for FY 2007 and for the 2009 biennium. Figure 7 below show the general fund status differences between the LFD and the executive budget for the FY 2007 through 2009 time period.

Figure 7

FY 2007 - 2009 – Legislative Fiscal Division vs Executive Budget			
<i>(Dollars in Millions)</i>			
	LFD 2007 - 2009	Executive 2007 - 2009	Difference
Beginning Fund Balance	\$409.00	\$422.00	(\$13.00)
Revenue			
HJR 2 Revenue - RTIC	\$5,435.00	\$5,465.00	(\$30.00)
Governor's Revenue Proposals	\$76.00	\$46.00	\$30.00
Total Funds Available	\$5,920.00	\$5,933.00	(\$13.00)
Disbursements			
General Appropriations	\$5,220.00	\$5,191.00	\$29.00
Statutory Appropriations	\$458.00	\$448.00	\$10.00
Non-Budgeted Transfers	\$47.00	\$47.00	\$0.00
Feed Bill	\$20.00	\$20.00	\$0.00
Reversions	(\$34.00)	(\$35.00)	\$1.00
Total Disbursements	\$5,711.00	\$5,671.00	\$40.00
Fund Balance Adjustments	\$13.00	(\$8.00)	\$21.00
Ending Fund Balance	\$222.00	\$254.00	(\$32.00)

Lower Revenues

Overall, the LFD projects \$13.0 million less general fund revenue available in FY 2007 through 2009 than the executive budget, due primarily to a difference in

the projected FY 2007 beginning general fund balance. General fund revenue from existing sources is estimated by the RTIC to be \$30.0 million less than the executive estimate, as the executive uses economic assumptions for corporate income tax that are more optimistic than those used by the RTIC. The executive estimates an average 5.7 percent annual growth in corporate income tax while the RTIC estimates an average 5.5 percent annual growth.

However, the LFD estimates that general fund revenue from the executive budget revenue proposals are \$30.0 million higher than presented in the executive budget, as the executive budget failed to include revenue projections for five of its proposed revenue bills in its 2009 biennium revenue projections. See *Part III, Perspectives on State Revenues*, for more information.

Higher Costs

The LFD projects \$40.0 million more general fund expenditures in FY 2007 through 2009 than the executive budget. Most of this difference is attributable to two items: 1) The executive budget “nets” tax administration expenditures against revenue increases relating to the revenue proposals contained in the executive budget and 2) The LFD projects higher statutory appropriation expenditures in the 2009 biennium than the executive. In most instances, the executive and the LFD relied on statutory appropriation information supplied by the respective agencies. Because the executive is required to submit the executive budget by November 15th, the LFD had more current information available.

2007 BIENNIUM GENERAL FUND BALANCE FUNDS ONE-TIME EXPENDITURES IN 2009 BIENNIUM

The executive proposes allocating approximately 94 percent of the projected 2007 biennium ending general fund balance, nearly \$500.0 million, for one-time expenditures in the 2009 biennium. As shown in Figure 8, the executive allocates approximately 60 percent of the proposed one-time expenditures towards public employee pension funds, infrastructure projects, and a one-time property tax rebate.

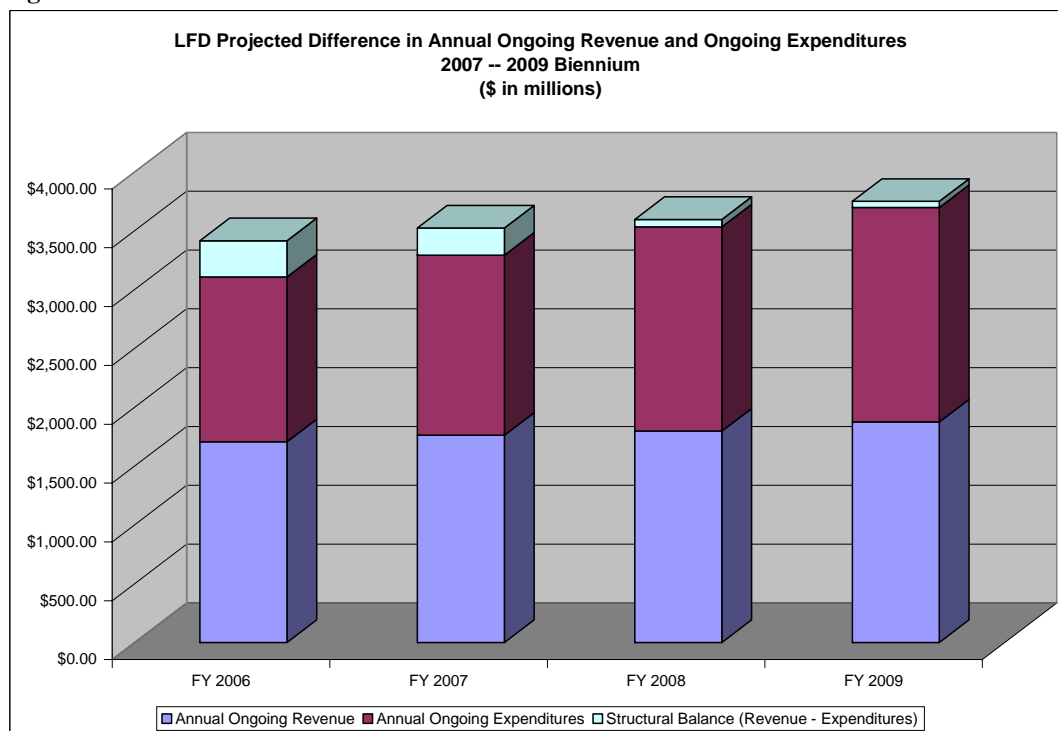
Figure 8

Executive Budget One-Time Only Initiatives - 2009 Biennium		
<i>(Dollars in Millions)</i>		
Description of Initiative	2009 Biennium	Percent of Total
Public employee pension funds	\$ 100.0	20.0%
State infrastructure projects	76.2	15.3%
Governor's \$400 property tax rebate	98.4	19.7%
All other non-HB 2 OTO proposals	161.3	32.3%
All HB 2 OTO new proposals	43.4	8.7%
All HB 2 OTO PL adjustments	<u>20.2</u>	<u>4.0%</u>
Total Executive Budget OTO expenditures	<u>\$ 499.5</u>	<u>100.0%</u>

ONGOING EXPENDITURE GROWTH EXCEEDS ONGOING REVENUE GROWTH

While the proposed executive budget leaves a substantial and unprecedented ending general fund balance, it significantly narrows the gap between ongoing revenue and ongoing expenditures. (Insert sentence explaining why structural balance is important, such as “This budget measure is one of the first indicators used by national bond rating agencies to evaluate the viability of the state budget”.) The proposed executive budget narrows the gap between ongoing revenue and ongoing expenditures to \$26.0 million by the end of the 2009 biennium. As shown in Figure 9, the ongoing revenue and expenditure gap was significantly larger in the 2007 biennium, as state revenues were much larger than anticipated by the 2005 Legislature.

Figure 9



EXECUTIVE BUDGET EXPANDS DEFINITION OF STATEWIDE INTEREST

One of the primary tasks of budgeting is determining the appropriate definition of what constitutes a statewide interest and consequently should be funded by the general taxpayer. The executive budget expands the current, derived definition of statewide interest by funding a number of functions currently not funded or not entirely funded with general fund, and/or where past definitions have placed a higher financial burden on those either responsible for the issue or receiving the benefit of the service.

The executive budget allocates approximately \$45.0 million general fund for these new expenditures. All but the additional funds for substance abuse treatment and wildlife grants (\$5.0 million) are classified as one-time-only by the Governor.

- ✓ Environmental remediation (i.e. State Superfund)
- ✓ Additional substance abuse treatment
- ✓ The weed trust
- ✓ Fish, Wildlife and Parks wildlife grants
- ✓ Water rights adjudication
- ✓ Housing through the manufactured home trust
- ✓ Board of Horseracing
- ✓ Energy assistance
- ✓ Payment for some implementation costs of the defined contribution plan

Each of these proposals would not only set a precedent for future decision makers, but in some cases have a very high potential for future expenditures.

PROPOSED REVENUE CHANGES LACK SUFFICIENT INFORMATION, ACCURACY AND DETAIL TO EVALUATE IMPACT

The executive budget, as submitted, did not include any explanation or justification for their revenue proposals nor did it include many of the necessary details to analyze the executive's revenue proposals. As noted previously, the executive budget failed to include revenue projections from 5 of the executive's 23 revenue proposals in its general fund revenue projection in the budget, leading to a \$30.0 million difference in the executive's and LFD's general fund revenue projections.. Our analysis of the executive's revenue proposals identified errors in the information that was submitted with the budget and uncovered gaps in information necessary for a complete analysis for the legislature.

BUDGET RISKS

If needed, include a narrative that briefly discusses any budget risks that we think are associated with the Executive Budget, or with RTIC general fund revenue projections. How might the budget risks be mitigated? What could the legislature do to mitigate these risks?

For example, was there any budget item for a "reserve" to address the pending lawsuits? Or, would this have been covered by the rainy day fund? Or would it have been covered by the \$140 million GF reserve??

Also, do we want to have some sort of statement indicating the inherent risk the general fund revenue estimates?

LEGISLATIVE CONSIDERATIONS

High level narrative, max one page, of major long term issues to keep in mind.

END OF SUMMARY SECTION

Perspectives on the Economy and Demographics



SUMMARY

Include narrative, not to exceed remainder of this page, summarizing the general outlook for the US and Montana. What US economic indicators are most applicable to Montana and what is the general trend for the budget period? What Montana economic indicators are most often used to estimate or forecast the general outlook for the Montana economy for the budget period? What are the general trends for the Montana economic indicators?

MAJOR ECONOMIC ASSUMPTIONS USED BY RTIC

Intro section discussing the responsibility of the Revenue and Transportation to evaluate relevant economic factors and develop “official” legislative revenue estimates. Discuss the collaboration with the Governor’s budget office, and the frequency with which the Governor’s revenue assumptions and estimate differs from the assumptions and estimate of the RTIC.

In the sections that follow, the economic assumptions used by the RTIC are presented, as well as the general economic outlook for the 2009 biennium. In those instances where the executive has used a different assumption or contemplates a significantly different economic outlook, that difference is noted.

US ECONOMIC INDICATORS

Identify the **primary** 3-5 US economic indicators that the RTIC uses to forecast the state’s fiscal condition for the budget period. For each indicator, discuss the recent trends and the forecast for the budget period.

Possible US economic indicators:

- Interest rates
- Inflation rates
- Corporate profits

Discussion of US economic indicators should take from .5 to 1.5 pages per indicator. Use easy to read charts as needed to convey information to the reader. Also, include one table that summarizes percent change for each indicator for the current and budgeted biennia (in case the reader wants to look at a table that shows this, rather than reading several pages to get it).

MONTANA ECONOMIC INDICATORS

Identify the **primary** 3-5 Montana economic indicators that the RTIC uses to forecast the state’s fiscal condition for the budget period. For each indicator, discuss the recent trends and the forecast for the budget period.

Possible Montana economic indicators:

- Oil and gas prices and production
- Montana total income
- Montana wages
- Montana population
- Property values

Discussion of Montana economic indicators should take from .5 to 1.5 pages per indicator. Use easy to read charts as needed to convey information to the reader. Also, include one table that summarizes percent change for each indicator for the current and budgeted biennia (in case the reader wants to look at a table that shows this, rather than reading several pages to get it).

Insert percent change summary table here

THE RTIC/LFD ECONOMIC OUTLOOK

Include a one page narrative (maximum) that synthesizes the impact of the US and Montana economic assumptions on the overall Montana economy as the legislature convenes for its legislative session.

The Executive Budget is More Optimistic (or More Conservative)

Include a brief section noting the assumption differences in the executive budget. Consider using a table comparing the assumption differences between the RTIC and the EB if there are significant or material differences.

Key Risks to Economic Assumptions

Include a section that briefly discusses the risks relating to the economic assumptions adopted by the RTIC. Discuss whether the EB mitigated the risks in any way, or did the EB assumptions worsen the risk?

DEMOGRAPHIC TRENDS

POPULATION TRENDS

This section of the report discusses state population trends (total population, growth rates, and components of population change (migration, natural)).

Also discuss trends/forecasts by age groups, ethnic mix.

BUDGETARY IMPACTS

Include a high level discussion of the budgetary impact of the forecast population changes (impact on K-12, higher education, aging services, children's health insurance, etc.). Limit to one page. See current Volume 1, pages 15-20 for some ideas.

State Revenue Perspectives



Include a short introductory paragraph discussing general trend of state revenues, and the trends of the primary economic factors driving the anticipated state revenue growth. In the sections that follow, the executive's general fund revenue estimate and proposed revenue-related changes are discussed. In addition, the legislature's official state revenue estimate approved by the Revenue and Taxation Interim Committee (RTIC) is presented. In those instances where the executive projects a significantly different revenue estimate the difference is noted.

THE EXECUTIVE'S GENERAL FUND REVENUE FORECAST

The *2009 Biennium Executive Budget* projects that Montana state government will receive \$3.7 billion in general fund revenues in the 2009 biennium, an increase of \$245.4 million, or seven percent, from the 2007 biennium. The increase is driven primarily by projected favorable economic conditions and proposed revenue related measures in the budget (\$46.6 million).

PROPOSED REVENUE-RELATED CHANGES

Although the *2009 Biennium Executive Budget* does not include any major tax reforms, it does contain several proposals that would impact state general fund revenues. As shown in Figure XX these proposals would generate \$46.6.x million additional general fund in the 2009 biennium (compared to the LFD estimate of \$76.x million) and includes

- \$XX.x million in new revenues from increased tax payment compliance proposals
- \$XX.x million in new revenues from proposed new tax auditing proposals

Insert table summarizing tax/revenue proposals, with projected biennial fiscal impact shown

THE LFD/RTIC GENERAL FUND REVENUE OUTLOOK

LFD/RTIC FORECAST IS HIGHER (LOWER) THAN EXECUTIVE BUDGET

Two main points in this section:

Insert table showing LFD GF revenue projections, biennial comparison

This table would be a summarized version of the table included on current volume 1, page 44

Include narrative that speaks to salient point of the table

Include a table showing the difference between LFD (RTIC) and EB

Again, this table would be a summary, not intended to list every GF revenue source. Use same categories as in the above table.

Include a discussion of the key factors underlying our higher/lower general fund revenue estimate

LFD/RTIC FORECAST FOR MAJOR GENERAL FUND REVENUE SOURCES

This section is to present the detail on three of the major general fund revenue sources. Limit to no more than two pages per revenue source.

Individual Income Tax

Background

Revenue Forecast

Forecast Factors

Property Tax

Background

Revenue Forecast

Forecast Factors

Corporation Income Tax

Background

Revenue Forecast

Forecast Factors

All Other General Fund Revenue

Brief section, general discussion.

For more info, see Volume II

State Expenditures Perspectives



PART ONE -- AN OVERVIEW OF STATE EXPENDITURES

EXECUTIVE PROPOSED TOTAL SPENDING IN THE 2009 BIENNIUM

The Governor's budget proposes total spending in the 2009 biennium of \$9.1 billion, including \$4.3 billion from the state's general fund and \$4.8 billion from other appropriated funds. This total biennial spending is \$0.9 billion higher than current biennium spending – an increase of 12.2 percent. Of total biennial spending, general fund spending accounts for about 41 percent. This proposed total spending level translates into \$4,550 for every man, woman, and child in Montana, or \$12.6 million per day.

EXECUTIVE ALLOCATION OF TOTAL STATE SPENDING

Figure 4 shows the allocation of the proposed \$9.1 billion of total state spending in the 2009 biennium among the state's major program areas.

Figure 4

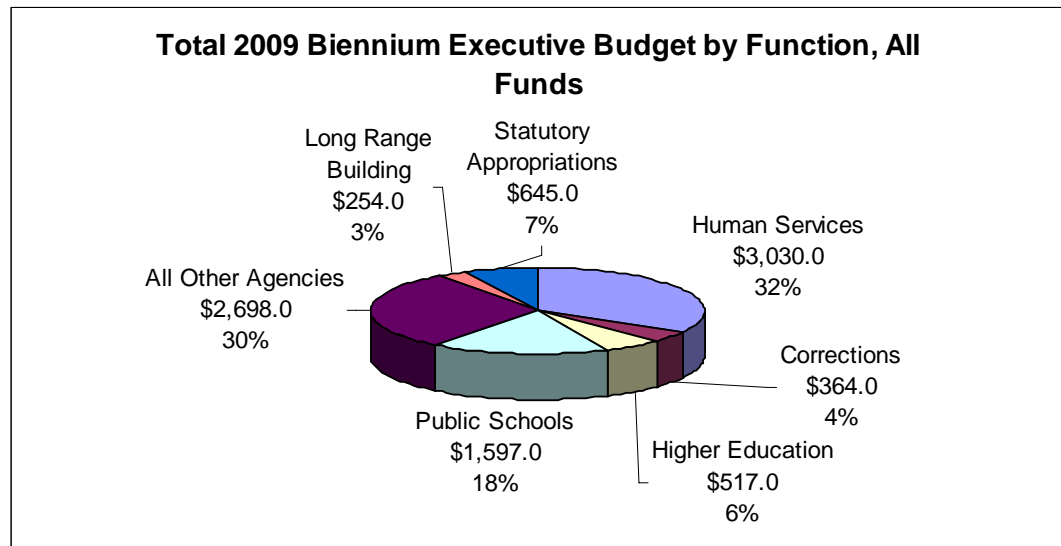


Figure XX shows that about one-third of the proposed executive budget is allocated to human services, about 30 percent for K-12 and higher education and corrections, and the remaining is allocated to all other state agencies, long-range building projects, and statutory appropriations.

EXECUTIVE PROPOSED GENERAL FUND SPENDING

BACKGROUND.

As defined in 17-2-102, MCA, the general fund “accounts for all financial resources except those required to be accounted for in another fund.” The general fund provides funding for the general operations of state government.

PROPOSED SPENDING.

The Governor proposes general fund spending of \$x.x billion for the 2009 biennium, an increase of xx percent from the 2007 biennium. As has been the case in recent years, the year-to-year changes in many programs are being affected by special factors, such as one-time actions (list any other Montana specific factor). As shown in Figure 3 (next page):

Highlight the top 4 or 5 programs that are receiving the largest increase, along with a brief description of what is driving the increase, such as caseload increases, medical cost increases, etc. Info from current volume 1, page 77 is the kind of info for this section.

- Office of Public Instruction -- \$140.4 million (along w/an explanation of what is driving the increase)

- Public Health and Human Services -- \$148.2 million (along w/an explanation of what is driving the increase)
- Corrections -- \$100.2 million (w/explanation)
- Montana University System -- \$31.0 million (w/explanation)

*Insert Figure 3 (General fund Spending by Major Program Area – current vs. proposed biennia. This is intended to be the GF Budget Comparison table) **This should be total general fund (I know we don't do this now, maybe we can figure out a way to start doing this), not just HB 2***

If desired, also include the pie chart and bar chart as used in previous Volume I.

EXECUTIVE PROPOSED STATE SPECIAL FUNDS SPENDING

BACKGROUND

State special funds are used to allocate certain tax revenues (such as gasoline and diesel tax) and various other income sources (including many licenses and fees) and for *specific* functions or activities of the government designated by law. (Consider inserting the statutory definition of SSR funds) In this way, they differ from general fund revenues, which can be allocated by the Legislature among a variety of programs. About xx percent of special funds revenues come from motor vehicle-related levies, another xx percent comes from property taxes, and the remainder comes from numerous sources, including licenses and fees.

PROPOSED SPENDING

In the 2009 biennium, the Governor proposes state special funds spending of \$1.2 billion (see Figure 4). This is a 9.2 percent increase from the current biennium. Brief discussion of what is driving cost increases (to the extent it exceeds regular inflation and pay plan).

Highlight the top 4 or 5 programs that are receiving the largest increase, along with a brief description of what is driving the increase, such as caseload increases, medical cost increases, etc. Info from current volume 1, page 79 is the kind of info for this section

- Transportation -- \$55.7 million (along w/an explanation of what is driving the cost increase)
- Public Health and Human Services -- \$49.0 million (along w/an explanation of what is driving the cost increase)
-

*Insert Figure 4 (Special Funds Spending by Major Program Area – current vs. proposed biennia. This is intended to be the SSR Budget Comparison table) **This should be total SSR (I know we don't do this now, maybe we can figure out a way to start doing this), not just HB 2***

If desired, also include the pie chart and bar chart as used in previous Volume I.

EXECUTIVE PROPOSED FEDERAL SPECIAL FUNDS SPENDING

BACKGROUND

Federal special funds account for moneys received from the federal government and are for *specific* functions or activities designated by the federal granting agency.(Consider inserting the statutory definition of FSR funds)In this way, they differ from general fund revenues, which can be allocated by the Legislature among a variety of programs. About 78 percent of federal revenues are used for health and human services, xx percent for transportation programs, and the remaining xx percent for other programs.

PROPOSED SPENDING

In the 2009 biennium, the Governor proposes federal special funds spending of \$2.2 billion (see Figure 5). This is a 7.3 percent increase from the current biennium. Brief discussion of what is driving cost increases (to the extent it exceeds regular inflation and pay plan).

Highlight the top 4 or 5 programs that are receiving the largest increase, along with a brief description of what is driving the increase, such as caseload increases, medical cost increases, etc. Info from current volume 1, page 81 is the kind of info for this section

- Public Health and Human Services -- \$153.0 million (along w/an explanation of what is driving the cost increase)
- Commissioner of Higher Education -- \$31.4 million (w/explanation)
- Department of Transportation -- \$23.0 million (w/explanation)
- Department of Commerce -- \$15.0 million (w/explanation)

*Insert Figure 5 (Federal Special Funds Spending by Major Program Area) -- current vs. proposed biennia. This is intended to be the FSR Budget Comparison table) **This should be total federal funds (I know we don't do this now, maybe we can figure out a way to start doing this), not just HB 2.***

If desired, also include the pie chart and bar chart as used in previous Volume I.

EXECUTIVE PROPOSED PROPRIETARY FUNDS SPENDING

BACKGROUND

As defined in 17-7-102, MCA, proprietary funds are.....”

Statute does not require that most proprietary funds be appropriated. Therefore, any increases in the program supported with these proprietary funds are not reflected in the figure.

PROPOSED SPENDING

In the 2009 biennium, the Governor proposes “appropriated” proprietary fund spending of \$27.8 million (see Figure XX). This is a 5.1 percent increase from the current biennium. Brief discussion of what is driving cost increases (to the extent it exceeds regular inflation and pay plan).

Highlight the top 1 or 2 programs that are receiving the largest increase, along with a brief description of what is driving the increase, such as caseload increases, medical cost increases, etc. Info from current volume 1, page 81 is the kind of info for this section

- Department of Justice -- -- \$0.97 million (along w/an explanation of what is driving the cost increase)
- Commissioner of Higher Education -- \$0.88 million (w/explanation)

*Insert Figure 6 (Proprietary Funds Spending by Major Program Area) -- current vs. proposed biennia. This is intended to be the Prop Budget Comparison table) **This should be total appropriated proprietary funds***

If desired, also include the pie chart and bar chart as used in previous Volume I.

EXECUTIVE PROPOSED SPENDING FROM CAPITAL PROJECTS FUNDS

BACKGROUND

PROPOSED SPENDING

Similar to above discussions, but maybe want to refer the reader to LRBP volume for more detail?

EXECUTIVE PROPOSED SPENDING FROM ALL FUNDS

Insert All Funds Comparison table, page 76 from current Volume I, only capital projects funds needs to be included, too, as these are appropriated funds

A HISTORICAL PERSPECTIVE ON SPENDING

TOTAL SPENDING – A 10-YEAR HISTORY

Include a table that shows total spending (by fund, or just GF?) for the last 10 years (last two years should be Executive Budget Request)

REAL AND PER CAPITA SPENDING

Include a table or chart that adjusts spending for population changes and adjusts for inflation

Narrative that discusses finding of this adjustment

State Expenditures Perspectives



PART TWO -- MAJOR EXPENDITURE PROPOSALS IN THE 2009 BIENNIUM BUDGET

In this section, we discuss several of the most significant spending proposals contained in the Executive Budget. For more information on these proposals, and our findings and recommendations concerning them, please see our analysis of the appropriate department or program in Volumes 3 or 4 of the *Legislative Budget Analysis – 2009 Biennium*.

Material for this section of the Expenditure discussion would be similar to the “Executive Expenditure Proposals” section of the current Volume I, pages 108 – 113 and possibly some of the discussion currently included in “Statewide EB Proposals/Issues”, pages 124-164.

FULL TIME KINDERGARTEN

BACKGROUND

Narrative providing brief background of the program and/or initiative

GOVERNOR’S PROPOSAL

Synopsis of the executive proposal, including funding information (amount and fund source). Also include significant policy changes resulting from the proposal.

ISSUES FOR LEGISLATIVE CONSIDERATION

What should the Legislature keep in mind as it considers the executive’s proposal?
For example:

- Is this proposal creating a new program, or expanding an existing program?

- Is the funding an issue.....any fund switching going on, or significant future general fund commitment?
- Are future costs (future biennia) significantly different than startup costs?
- Are any statutory changes needed to implement the executive proposal?
- Other considerations?

Major Issues Facing the Legislature



This is the section where we develop and discuss issues more fully.
This is for issues with statewide impact and importance.

Material from current Volume I, pages 21-30, 165-172, and “Other Fiscal Issues to Consider, pages 173-208”

Issues could be outside the proposed EB.
As many issues as determined by the LFD
Gov Tax Proposals
Structural Balance
Lawsuits

Each issue would be presented as a chapter, formatted as shown on the next page

:

THE GOVERNOR'S TAX PROPOSALS

Should the legislature adopt the Governor's proposed tax changes impacting oil and gas production taxes?

Summary

The budget contains two tax proposals that impact oil and gas production taxes and the distribution of those taxes. The first proposal temporarily increases the oil and gas production tax 10 percent and dedicates the additional revenue for infrastructure repair projects in counties and towns impacted by oil and gas development. The second proposal changes the distribution of tax collections from quarterly to semi-annually. We provide background on these two proposals, discuss their economic and fiscal impacts, and identify issues associated with them.

Start on next page.....One or more pages of narrative describing the issue and proposed solutions